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September 21, 2005

John F. Carter, Director  
Federal Deposit Insurance Corporation  
San Francisco Regional Office  
25 Ecker Square, Suite 2300  
San Francisco, CA 94105

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Dear Director Carter:

Wal-Mart has an application seeking approval for deposit insurance from FDIC for its Industrial Loan Company (ILC) in the State of Utah. As an independent community bank president, I hope FDIC will not approve this application. Without a doubt, the largest threat to community banking is Wal-Mart's ILC. Let me explain why.

Wal-Mart has four retail divisions: Wal-Mart superstores, discount stores, neighborhood markets, and Sam's Club warehouse. These divisions offer a wide variety of merchandise around the world. Wal-Mart Stores, Inc. is the world's largest retailer with \$285.2 billion in sales for the year ending January 31, 2005. This was an increase of 11.3% over the previous year ending January 31, 2004. This is an increase of \$29 billion in sales, and for the first time ever, net income exceeded \$10 billion. Lee Scott, President and CEO of Wal-Mart said, "It was a solid performance, but we can do better". These numbers exemplify the powerhouse that Wal-Mart has become. It has roughly 3,560 stores nationwide and over 2.2 million employees. Wal-Mart has over 138 million shoppers every week, or nearly 20 million per day. Wal-Mart presently has a 79% share of the U.S. supercenter market and its share of consumer staples could hit 50% by the end of the decade. Grocery prices average 14% lower than its competitors, and price is the biggest reason 82% of U.S. households made a Wal-Mart purchase last year. Nearly 75% of its stores are in the U.S.; Wal-Mart is the number one retailer in Canada and Mexico. "There is nothing like Wal-Mart. They are so much bigger than any retailer has ever been that it's not possible to compare. The world has never known a company with such ambition, capability, and momentum," says a Boston Consulting Group Report.

In 2005, Wal-Mart plans to open up to 530 new stores. This includes 250 new superstores, 45 new discount stores, 40 new Sam's Clubs, and 30 new neighborhood markets in the United States. Wal-Mart management estimates that in the United States, there is room for almost 4,000 more superstores! Future growth seems unlimited to Wal-Mart, primarily due to its size and success.

Wal-Mart has four retail divisions in which they want to put ILC's or banks. These examples reveal Wal-Mart's strategy to slowly but surely gain a foothold in the financial arena. Although they have not yet been allowed to acquire a bank or have been approved for an ILC, they appear to be proceeding with every legal way to gain ground. According to consultant Bert Ely & Co. in Alexandria, Virginia, "They're developing, in customer's minds, a link between Wal-Mart and going to the bank. That has powerful long-term implications." Once customers are conditioned to banking at Wal-Mart, they will continue to do so if and when Wal-Mart succeeds in gaining a bank charter or ILC license. The very obvious strategy at that time would be to place Wal-Mart banks in stores that do not currently have banks or branches from other banks. Then wait for the leases to run out and replace the bank or branch with a Wal-Mart bank.

Studies have shown that customers with five or six bank product relationships will stay with a bank much longer than a customer with one product relationship such as a checking or savings account. Let's assume

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for a moment that it is half as likely for a customer to move their bank account as to switch supermarkets. If one Wal-Mart superstore closes two supermarkets, then one Wal-Mart bank would close a community bank. Thinking it couldn't happen would be underestimating the marketing and pricing powers of the most dominant company the world has ever known. Ronald K. Ence, Vice President of Independent Community Bankers of America says, "There's no question they want to have a nationwide financial services network. If they do, there's no doubt in my mind they'll be able to do to community banks the same thing they've done to the local grocery store and the local hardware store and the local clothing store."

Wal-Mart's number of physical locations is 3,560; this is second to Bank of America with 5,835. However, Wal-Mart would come in 16% ahead of Wells Fargo and Wachovia for perspective. That is more than Citigroup and JP Morgan (after the Bank One acquisition) combined! In terms of market capitalization, Wal-Mart would have nearly 43 times more equity than Citigroup. These numbers are staggering and should grab the attention of every community banker in America as to the future of their communities and livelihood! Congress should stand up and tell Wal-Mart banking and commerce will not be mixed for the benefit of Wal-Mart!

Wal-Mart has the existing brick and mortar to open 3,560 banks nationwide with very little expense. These banks would have extremely low overhead. Wal-Mart has the marketing staff, budget, and expertise to begin a nationwide campaign for new bank customers, and it has existing customer traffic of nearly 20 million customers per day. The company also has the size and efficiency to produce a very low cost product in terms of loan rates and generate a very low cost of funds.

It is the combination of these factors packaged with Wal-Mart's convenience factor that points to one inevitable conclusion: If Wal-Mart is allowed to obtain ILC or full banking powers, it will be the most powerful competitor that community banks have ever seen and could produce a death blow to community banks over the next several decades.

Director Carter, I have listed several reasons why Wal-Mart's Industrial Loan Company application should be denied in the State of Utah (or in any of the 50 states, for that matter). I appreciate your time and consideration of my concerns. If you have any questions, please call me at 406-755-4271

Sincerely,



John R. King  
President/CEO

JRK/km

Exhibit attached

cc: Senator Max Baucus  
Senator Conrad Burns  
Representative Denny Rehberg  
Governor Brian Schweitzer  
ICBA President/CEO Camden R. Fine  
MIB Executive Secretary Keith Colbo

Sources cited: [www.walmartstores.com](http://www.walmartstores.com)

Anthony Bianco and Wendy Zellner, Is Wal-Mart Too Powerful? Business Week 5-6-03 p.p. 102-110

Wendy Zellner, Wal-Mart's Next Target: Banking, Business Week 2-7-05, p.p. 29-31

Additional source: Greg Foley, Senior Vice President, Three Rivers Bank of Montana

## Exhibit

Source: Banking Now, September 2005

### **Sound Banking Coalition objects to omissions in Wal-Mart application**

Objections to Wal-Mart Stores Inc. omitting "essential elements" about the company's plans to own and operate an industrial loan company in Utah from a publicly available FDIC application have been raised by the Independent Community Bankers of America and other members of the Sound Banking Coalition.

In an Aug. 10 letter to FDIC officials, ICBA and the coalition of financial, retail and labor groups argued that the missing information makes it impossible for the public to adequately assess whether the FDIC should grant the proposed ILC federal deposit insurance. The coalition has asked federal officials to require Wal-Mart to disclose more information and to extend the public comment period on the company's application for FDIC insurance for 30 days.

"Essential elements -- such as the risks associated with the proposed bank, potential conflicts of interest, interlocking management relationships, and the adequacy of capital -- are shielded from public view," the letter states. "Until the information that Wal-Mart has attempted to conceal is made public, there is no opportunity for informed, meaningful public comment."

The coalition identified numerous instances where Wal-Mart withheld critical information in its FDIC application, such as the names and background of organizers and proposed executive officers of the ILC; the proposed compensation, including stock option plans, of directors and executive officers; how the institution would be capitalized; the purported need for the institution; and projections regarding the ILC's branch offices.

In addition to ICBA, members of the Sound Banking Coalition include the National Association of Convenience Stores, the National Grocers Association and the United Food and Commercial Workers International Union.

### **First Interstate Bank,**

Billings, Mont., has announced that it is closing its nine branches in Wal-Mart stores. Bank officials said that Wal-Mart has started offering some of its own banking services, which prompted the First Interstate move.

Branches in Great Falls, Helena and Billings, all in Montana, and in Laramie and Casper, both in Wyoming, were closed June 30. Other branches will be closed as leases expire, with the last being in Missoula in August 2006.

Employees are being transferred to other locations and no layoffs are planned, according to the bank's announcement.